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Recommendation for a

# COUNCIL RECOMMENDATION

## endorsing the national medium-term fiscal-structural plan of Sweden

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Recommendation for a

**COUNCIL RECOMMENDATION**

**endorsing the national medium-term fiscal-structural plan of Sweden**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

## GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment

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[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

## CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF SWEDEN

(5) On 11 October 2024, Sweden submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Sweden.

### Process prior to the submission of the plan

(6) Prior to the submission of its plan, Sweden requested technical information[5], which the Commission provided on 21 June 2024 and published on 11 October 2024[6]. The technical information indicates the level of the structural primary balance in 2028

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[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

[5] Prior guidance transmitted to the Member States and Economic and Financial Committee includes technical information i) without and with an extension of the adjustment period (covering 4 and 7 years, respectively), and ii) with and without deficit resilience safeguard. It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

[6] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#sweden

that is necessary to ensure that the general government deficit is maintained below 3% of GDP over the medium term and that the general government debt remains below 60% of GDP over the medium term, in the absence of further budgetary measures beyond the 4-year adjustment period. The medium term is defined as the ten-year period after the end of the adjustment period. The technical information was prepared and transmitted to the Member States under two scenarios: a scenario including consistency with the deficit resilience safeguard,[7] in line with Article 9(3) of Regulation (EU) 2024/1263, and a scenario without this safeguard. The technical information for Sweden sets out that, in order to comply with the applicable fiscal rules over an adjustment period of 4 years, and based on the Commission's assumptions, the structural primary balance should amount to at least -1.8% of GDP at the end of the adjustment period (2028; scenario without the deficit resilience safeguard), as per the following table 1. For information, considering also the deficit resilience safeguard, the structural primary balance should amount to at least -0.8% of GDP at the end of the adjustment period (2028). However, the deficit resilience safeguard is not a requirement for Sweden, which is eligible for technical information.

**Table 1: Technical information provided by the Commission to Sweden**

| Final year of the adjustment period | 2028 |
|---|---|
| Minimum value of the structural primary balance (% of GDP), scenario without the deficit resilience safeguard | -1.8 |
| *For information only:* Minimum value of the structural primary balance (% of GDP), scenario with the deficit resilience safeguard | -0.8 |

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Sweden and the Commission engaged in a technical dialogue in August 2024. The dialogue centred on the net expenditure path envisaged by Sweden as a ceiling that Sweden commits not to exceed and its underlying assumptions (in particular the initial position in 2024 and potential GDP growth over the medium term), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) The plan submitted by Sweden does not report on a consultation process with domestic stakeholders prior to submission.

(9) The plan was presented to the national parliament on 1 October 2024. It was consequently adopted by the government on 10 October 2024.

**Other related processes**

[7] The deficit resilience safeguard established in Article 8 of Regulation (EU) 2024/1263 establishes that the annual improvement in the structural primary balance is of 0.4 percentage points of GDP (or 0.25 percentage points of GDP in case of an extension of the adjustment period) until the structural deficit is lower than 1.5% of GDP.

(10) On 19 June 2024, the Commission concluded that Sweden is experiencing macroeconomic imbalances. In particular, Sweden faces vulnerabilities related to its real estate market and high private debt, which remain relevant and policy action to tackle them has been limited[8].

(11) On 21 October 2024, the Council addressed to Sweden a series of country-specific recommendations (CSRs) in the context of the European Semester[9].

## SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

### Context: macroeconomic and fiscal situation and outlook

(13) Economic activity in Sweden declined by 0.3% in 2023, driven by marked falls in private consumption and fixed capital formation. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 0.3% in 2024, on the back of a recovery in domestic demand underpinned by falling inflation and lower interest rates. In 2025, real GDP is set to increase by 1.8%, as the recovery in domestic demand is set to gather pace. In 2026, real GDP is expected to increase by 2.6%, as economic growth is set to be broad-based. Over the forecast horizon, potential GDP growth is expected to stay broadly stable with a slight upward tendency. The unemployment rate stood at 7.7% in 2023 and the Commission projects it at 8.5% in 2024, 8.4% in 2025 and 7.8% in 2026. Inflation (GDP deflator) is projected to decrease from 6.1% in 2023 to 2.3% in 2024, and to reach 1.4% in 2025 and 1.3% in 2026.

(14) Regarding fiscal developments, in 2023 Sweden's general government deficit was 0.6% of GDP. According to the European Commission Autumn 2024 Forecast, the deficit is set to reach 1.9% of GDP in 2024 and to decline to 1.4% of GDP in 2025 and, on a no-policy change basis, to 0.3% in 2026. The European Commission Autumn 2024 Forecast includes Sweden's draft budget for 2025 that the government proposed to the national parliament in September. General government debt was 31.5% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 32.8% of GDP at end-2024 before broadly stabilising at 32.7% of GDP at end-2025 and decrease to 31.7% of GDP at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

### Net expenditure path and main macroeconomic assumptions in the plan

(15) Sweden's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over four years.

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[8] 'Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank', COM (2024) 600 final, Appendix 4

[9] Council Recommendation on economic, budgetary, employment and structural policies of Sweden, not yet published.

(16) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263, with the exception of the information on the consultation of domestic stakeholders prior to submissions required by Article 13(g) (vi) of Regulation (EU) 2024/1263.

(17) The plan specifies that the net expenditure path indicated in Table 2 defines an upper limit for net expenditure growth of 4.4% over the years 2025-2028 that the authorities commit not to exceed. The technical information (assuming a linear adjustment path) is consistent with an average net expenditure growth of 4.5% over the adjustment period (2025-2028). The upper limit for the net expenditure path committed to in the plan is reported to lead to a structural primary balance of -1.8 % of GDP at the end of the adjustment period (2028). This is equal to the minimum level of the structural primary balance of -1.8% of GDP in 2028 provided by the Commission in the technical information on 21 June 2024[10]. The plan assumes potential GDP growth to remain fairly stable over the plan period, at around 1.7%. In addition, the plan expects the growth rate of the GDP deflator to decrease from 2.8% in 2024 to 1.4% in 2025 before increasing gradually to 1.8% by 2028.

**Table 2: Net expenditure path and main assumptions in Sweden's plan**

| | 2024 | 2025 | 2026 | 2027 | 2028 | Average over the period of validity of the plan 2025-2028 |
|---|---|---|---|---|---|---|
| Net expenditure growth (annual, %) | 6.4 | 4.0 | 4.4 | 4.4 | 4.6 | 4.4 |
| Net expenditure growth (cumulative, from base year 2023, %) | 6.4 | 10.7 | 15.5 | 20.6 | 26.1 | n.a. |
| Potential GDP growth (%) | 1.4 | 1.6 | 1.8 | 1.7 | 1.8 | 1.7 |
| Inflation (GDP deflator growth) (%) | 2.8 | 1.4 | 1.6 | 1.7 | 1.8 | 1.6 |

Source: Medium-term fiscal-structural plan of Sweden and Commission calculations.

**Implications of the plan's net expenditure commitments for general government debt**

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually climb from just below 33% of GDP in 2024 to 36.2% of GDP at the end of the adjustment period in 2028, as per following table 3. After the adjustment, over the medium term (i.e. until 2038), the debt ratio is expected to continue to increase, according to the plan, to reach 51.3% of GDP by 2038.

[10] In the scenario without the deficit resilience safeguard.

**Table 3: General government debt and balance developments in Sweden's plan**

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2038 |
|---|---|---|---|---|---|---|---|
| Government debt (% of GDP) | 31.5 | 32.7 | 33.3 | 34.0 | 34.9 | 36.2 | 51.3 |
| Government balance (% of GDP) | -0.6 | -1.7 | -1.5 | -1.6 | -1.9 | -2.2 | -2.9 |

Source: Medium-term fiscal-structural plan of Sweden

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60% of GDP over the medium term. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

**Implications of the plan's net expenditure commitments for the general government balance**

(19) Based on the plan's net expenditure path and assumptions, the general government deficit would progressively increase over the adjustment period from 1.5% in 2025 to 2.2% of GDP in 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period in 2028. In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article 16(2) of Regulation (EU) 2024/1263.

**Macroeconomic assumptions of the plan**

(20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Sweden on 21 June 2024. In particular, the plan uses different assumptions for six variables, namely the initial position in 2024, potential GDP growth, the GDP deflator, the nominal implicit interest rate, stock-flow adjustments and property income. An assessment of these differences in assumptions is provided below. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan assumes a lower structural primary balance for 2024, namely a surplus of 0.2% of GDP, while the Commission expected a surplus of 0.7% of GDP in spring 2024. This revised initial fiscal position and the accompanying updated macroeconomic conditions for 2024 in the plan (which are consistent with the assumptions used for Sweden's 2025 budget law) reflect more recent information available since Spring and are slightly more favourable than the European Commission 2024 Autumn forecast. Overall, this assumption is deemed to be duly justified. Taken in isolation, it lowers the average net expenditure growth ceiling over the adjustment period compared with the Commission's assumptions.

- In the plan, potential growth over the plan period is higher by 0.1 pp. on average compared to the Commission's assumption. This reflects more recent outturn data than in spring 2024, using the EU commonly agreed methodology. Consequently, this assumption of slightly different potential growth is deemed to be duly justified. Taken in isolation, it raises the average net expenditure growth ceiling over the adjustment period compared with the Commission's assumptions.

The remaining differences in assumptions do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is lower than the average net expenditure growth implied by the technical information. The Commission will will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path .

**Fiscal strategy of the plan**

(21) The plan does not include an indicative fiscal strategy to implement the net expenditure path of the plan, as that path is only set as a technical ceiling that Sweden commits not to exceed. The precise specification of the relevant policy measures is to be confirmed or adjusted and quantified in the annual budgets.

**Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union**

(22) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, including those pertaining to the MIP, and to address the common priorities of the EU. The plan includes a set of reforms and investments, without quantifying which are financially supported by the Recovery and Resilience Facility.

(23) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes policy initiatives that intend to address this common priority and related CSRs received in 2019, 2020, 2022, 2023 and 2024. In particular, the plan covers measures to support climate neutrality by 2050, including via climate measures and investment and innovation subsidies and premiums (all of the CSRs related to the green transition); resources to support the green transition in northern Sweden (CSRs received in 2020 and 2021), and streamlined permitting procedures for green investment projects (CSRs received in 2022 and 2023). Investments to ensure broadband connectivity throughout Sweden, a unified public governance system for digital infrastructure, and the development of an official digital ID are intended to contribute to the digital transition.

(24) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes policy initiatives that intend to

address this common priority and related CSRs, including the MIP-related CSR on private debt and the housing market, received in 2019, 2020, 2022, 2023 and 20224. These initiatives include providing incentives for reschooling; providing targeted support to the long-term unemployed; education reforms to improve the career development of teachers and school managers; improving educational outcomes for vulnerable groups, yet without specifically mentioning people with a migrant background; support for adult education, and the training of teachers; measures to provide municipalities with subsidies and credit guarantees to support housing construction and the conversion of non-residential buildings for housing purposes.

(25) Concerning the common priority of energy security, the plan includes policy initiatives that intend to address this common priority and related CSRs received in 2020, 2022, 2023, 2024, notably investments in energy production and transmission.

(26) Concerning the common priority of defence capabilities, the plan includes initiatives to significantly increase resources for military and civil defence for the period up to 2035.

(27) The plan provides information on the consistency and, where appropriate, complementarity, with the Cohesion policy funds and Sweden's recovery and resilience plan (RRP). Key measures included in the RRP are the climate leap and industry leap, broadband expansion as well as REPowerEU related measures that contribute to the green and digital transitions that are complementary to listed cohesion policy funded measures linking to common EU priorities. The plan includes information on the objectives of the different cohesion policy funds and examples of their actions in different sectors and regions, including the Northern Sparsely Populated Areas.

(28) The plan provides an overview of the public investment needs of Sweden related to the common priorities of the EU. Regarding the common priorities of a fair green and digital transition, social and economic resilience, and energy security investment needs with respect to research and innovation are to be translated in additional expenditure over the plan horizon, rising stepwise from SEK 1 billion in 2025 to SEK 6.5 billion in 2028 and beyond. Investment needs related to social and economic resilience, energy security and a fair green transition are further identified for transport infrastructure and for electricity production and transmission. Investment needs for energy production are estimated to very between SEK 10 and 140 billion per five-year period for the years between 2020 and 2040. The plan aims to contribute to meet the public investment needs of Sweden regarding the common priority of energy security with electricity network investment which is foreseen to amount to SEK 170 billion over the period 2020-2031. As regards the common priorities of social and economic resilience and a fair green transition the plan aims to contribute to meet the public investment needs pertaining to transport infrastructure with expenditure of SEK 1 171 billion over the period 2026-2037. The plan further details substantial increases in expenditure foreseen for defence and civil defence, going up from SEK 126 billion in 2024 to SEK 225 billion in 2035, with a large share to consist of investment outlays.

**Conclusion of the Commission's assessment**

(29) Overall, the Commission is of the view that Sweden's plan fulfils the requirements of Regulation (EU) 2024/1263.

## OVERALL CONCLUSION

(30) On the basis of the Commission assessment, in accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Sweden.

HEREBY RECOMMENDS that Sweden

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Sweden to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

## ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Sweden

| Years | | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|
| Growth rates (%) | Annual | 4.0 | 4.4 | 4.4 | 4.6 |
| | Cumulative (*) | 10.7 | 15.5 | 20.6 | 26.1 |

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Strasbourg,

*For the Council*
*The President*